

**REPORT OF THE AUDIT OF THE
CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 22, 2008 Through April 21, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
April 22, 2008 Through April 21, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Calloway County Sheriff for the period April 22, 2008 through April 21, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$11,475,321 for the districts for 2008 taxes, retaining commissions of \$429,929 to operate the Sheriff's office. The Sheriff distributed taxes of \$11,036,602 to the districts for 2008 taxes. Taxes of \$464 are due to the districts from the Sheriff and refunds of \$1,719 are due to the Sheriff from the taxing districts.

Report Comment:

- The Calloway County Sheriff's Office Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of October 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$344,471

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Elkins, Calloway County Judge/Executive

Honorable William Marcum, Calloway County Sheriff

Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the Calloway County Sheriff's Settlement - 2008 Taxes for the period April 22, 2008 through April 21, 2009. This tax settlement is the responsibility of the Calloway County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Calloway County Sheriff's taxes charged, credited, and paid for the period April 22, 2008 through April 21, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Honorable William Marcum, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Calloway County Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

November 9, 2009

CALLOWAY COUNTY
WILLIAM MARCUM, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 22, 2008 Through April 21, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,781,699	\$ 2,206,588	\$ 4,214,065	\$ 1,826,616
Tangible Personal Property	177,568	317,176	328,291	509,226
Fire Protection	1,164			
Increases Through Exonerations	874	1,023	1,519	1,059
Franchise Taxes:				
Current Year Franchise	61,343	96,874	162,573	
Prior Year Franchise	7,019	9,469	12,440	
Additional Billings	573	752	1,363	650
Limestone, Sand and Mineral Reserves	53	76	167	54
Bank Franchises	98,970			
Penalties	9,785	12,631	24,294	10,080
Gross Chargeable to Sheriff	2,139,048	2,644,589	4,744,712	2,347,685
<u>Credits</u>				
Exonerations	11,413	14,734	28,706	10,669
Discounts	31,386	40,531	71,226	38,431
Delinquents:				
Real Estate	23,890	31,293	63,480	24,481
Tangible Personal Property	781	1,091	1,770	2,323
Franchise Taxes:				
Discounts	638	975	1,452	
Current Year Delinquent	176	251	447	
Prior Year Delinquent	87	102	246	
Uncollected	26	33	75	
Total Credits	68,397	89,010	167,402	75,904
Taxes Collected	\$ 2,070,651	\$ 2,555,579	\$ 4,577,310	\$ 2,271,781
Less: Commissions *	88,290	107,482	137,319	96,838
Taxes Due	1,982,361	2,448,097	4,439,991	2,174,943
Taxes Paid	1,981,092	2,445,701	4,436,938	2,172,871
Refunds (Current and Prior Year)	1,751	2,242	4,255	1,798
Due Districts or (Refunds Due Sheriff) as of		**		
Completion of Audit	\$ (482)	\$ 154	\$ (1,202)	\$ 274

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
 WILLIAM MARCUM, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period April 22, 2008 Through April 21, 2009
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,436,149
4% on	\$	451,862
3% on	\$	4,577,310

** Special Taxing Districts:

Library District	\$	29
Health District		28
Extension District		(14)
Soil Conservation		(21)
Jail		13
Fire		119

Due Districts or (Refunds Due Sheriff)	\$	154
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The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

April 21, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Calloway County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
April 21, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 21, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$344,471

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 14, 2008 through April 21, 2009.

Note 4. Interest Income

The Calloway County Sheriff earned \$370 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Calloway County Sheriff collected \$48,235 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Calloway County Sheriff collected \$1,900 of advertising costs and \$10,542 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Larry Elkins, Calloway County Judge/Executive
Honorable William Marcum, Calloway
Members of the Calloway County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Calloway County Sheriff's Settlement - 2008 Taxes for the period April 22, 2008 through April 21, 2009, and have issued our report thereon dated November 9, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calloway County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Calloway County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Calloway County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Calloway County Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Calloway County Sheriff's Settlement - 2008 Taxes for the period April 22, 2008 through April 21, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Calloway County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Calloway County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 9, 2009

COMMENT AND RECOMMENDATION

CALLOWAY COUNTY
WILLIAM MARCUM, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 22, 2008 Through April 21, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Calloway County Sheriff's Office Lacks An Adequate Segregation Of Duties

During the review of the internal control structure, the following deficiencies were noted in the control environment over revenue and expenditures:

- The Sheriff's bookkeeper collects money, prepares deposits, and reconciles to daily collection reports.
- The Sheriff's bookkeeper signs all checks with no second signature required.
- The Sheriff's bookkeeper prepares monthly bank reconciliations.

No compensating controls were noted to offset any of these control deficiencies. Therefore, the control deficiencies as described above are significant deficiencies and material weaknesses. The Sheriff should segregate duties over revenues and expenditures or should implement the following compensating controls to limit the severity of these internal control weaknesses:

- The Sheriff or his designee should periodically prepare the daily bank deposit and compare it to the daily collection report prepared by the bookkeeper. Any differences should be reconciled. This review should be documented by signing the bank deposit, daily collection reports.
- The Sheriff or his designee should review the monthly tax reports and compare monthly reports to checks written. The Sheriff or his designee should also review supporting documentation for any other checks written from the tax account such as overpayments and refunds. A second authorized signature should be required on all checks.
- The Sheriff or his designee should prepare the monthly bank reconciliation. Any differences should be reconciled. This should be documented by signing the bank reconciliation and checkbook.

Sheriff's Response: None.

